

Chapter 5

Non-current assets held for sale and discontinued operations

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CREATING GREAT OUTCOMES

through professional qualification training
and study abroad services and preparation

Main contents

◆ IFRS 5: Non-current assets held for sale and discontinued operations

持有待售的非流动资产 和终止经营

◆ IFRS 5 Non-current assets held for sale

➤ Definition

A non-current asset should be classified as 'held for sale' if its carrying amount will be **recovered principally through a sale transaction** rather than through continuing use.

➤ Suitable conditions

- I. The asset must be available for immediate sale in its present condition.
- II. The sale must be **highly probable**, meaning that: 致力
 - (a) management are committed to a plan to sell the asset
 - (b) the entity is actively seeking a buyer
 - (c) the asset is being actively marketed at a reasonable price
- III. The sale is expected to be completed **within 12 months** of its classification as held for sale
- IV. It is **unlikely** that the plan will be significantly **changed or will be withdrawn.**

➤ Measurement

Non-current assets that qualify as held for sale should be measured at the lower of: 孰低

I. Their carrying amount and

II. fair value less costs to sell

NRV 与 账面价值

Note: an impairment review is performed on classification.

➤ Presentation: 披露

I. Re-categorize (重分类) the asset from non-current asset to current asset.

II. Not depreciated 不折旧

Example

Halfway through the year an asset is identified as an asset held for sale after meeting the criteria according to IFRS 5. At the start of the year the carrying amount of the asset was \$150,000 (original cost \$200,000 two years ago). What is the depreciation charge for the year?

$$(200,000 - 150,000) / 2 * 1/2 = \$12,500$$

Example PPE transfer to HFS

On 1 January 20X1, Michelle Co bought a machine for \$20,000. It has an expected useful life of 10 years and a nil residual value. It was accounted for using cost model. On 30 September 20X3, Michelle Co decides to sell the machine and starts actions to locate a buyer. The machines are in short supply, so Michelle Co is confident that the machine will be sold fairly quickly. Its market value at 30 September 20X3 \$13,500 and it will cost \$500 to dismantle the machine and make it available to the purchaser. The machine has not been sold at the year end.

Required:

At what value should the machine be stated in Michelle Co's statement of financial position at 31 December 20X3?

\$

Cost	20,000
Dep'n year 1 (20,000/10 years)	(2,000)
Dep'n year 2	(2,000)
Dep'n year 3 (20,000/10 years × 9/12)	<u>(1,500)</u>
CV at 30 September 20X3	14,500

Fair value less costs to sell = \$13,500 – \$500 = \$13,000

The machine qualifies as 'held for sale' on 30 September 20X3 and stated at the lower of \$14,500 and \$13,000, namely at \$13,000.

Dr impairment loss (bal)	1,500	HFC
Dr current asset- <u>held for sale</u>	<u>13,000</u>	初次确认, 初始计量
Cr CV of PPE	<u>14,500</u>	PPE 终止确认

The machine will no longer be depreciated.

Example PPE transfer to HFS

On 20X9.1.1, it classified one of its freehold properties as held for sale. At that date the property had a CV of \$667,000 and had been accounted for according to the revaluation model. Its fair value was estimated at \$825,000 and the costs to sell at \$3,000. what is the impact on FS? *where, ③ impairment*

Hint: $\text{① PPE } \begin{matrix} \text{CV} \rightarrow \text{FV (revlsed CV)} \\ 667 \quad 825 \end{matrix} \Delta \rightarrow \text{OCI (R.R)}$
 $\text{② PPE} \rightarrow \text{HFS} \rightarrow \text{lower of } \begin{matrix} \text{CV } 825 \\ \text{FV} - \text{cost to sell } 825 - ③ = 822 \end{matrix}$

Firstly, The property (PPE) will be revalued to the fair value of \$825,000. The gain of \$158,000 ($825,000 - 667,000$) is recognized in OCI and it is transferred to the revaluation reserve at year end.

Dr PPE 158,000

Cr revaluation reserve (i.e. OCI) 158,000

Secondly, after revalue to fair value, The PPE transfers to held for sale, which is measured at lower of CV (825,000) and fair value less costs to sell ($\$825,000 - \$3,000$), i.e. create an impairment loss of \$3,000.

Dr asset held for sale	822,000
Dr impairment loss	3,000
Cr PPE	825,000

Statement of profit or loss

impairment loss \$3,000

Other comprehensive income

Revaluation gain \$158,000

SOFP

Current asset

Held for sale 822,000

Equity

Retained earning
-3000

Revaluation reserve
+158,000

Conclusion of PPE transfer to HFS:

- ✓ If PPE was valued at cost model, transfer to HFS directly without revaluation
- ✓ If PPE was valued at revaluation model, revalue to fair value first ,and then transfer to HFS. An impairment loss (equal to costs to sell) will be recognized.

◆ Discontinued operation 终止经营

➤ Definition

A discontinued operation is a component of an entity that, at the year end, either has been **disposed of**, or is classified as **held for sale**, and:

- I. Represents a separate **major line of business** or **geographical area** of operations;
- II. It is part of a **single co-ordinated plan** to dispose of a separate major line of business or geographical area of operations, or
- III. A subsidiary acquired exclusively with a **view to resale**

Example

Rural has the following two lines of business that have been disposed of in the year:

虽然代表独立的地理区域，但是重要性不够

Sector X operated in Country A. Rural has no other operations in Country A, and Sector X produced 0.5% of the total revenue of Rural.

major

Sector Y operated in the same country as the Rural head office. It sold a different product from the other components of Rural, and contributed 10% of the total revenue of Rural Co.

Which of these sectors, if either, should be disclosed as a discontinued operation in the current year?

X: No

Y: Yes

➤ Disposal groups 处置集团

An entity may decide to dispose of a group of assets instead of a single asset. For example, a company might decide to sell all of the assets relating to a sales office which is being closed down. 卖掉的不是某个资产，而是整个门店（可能包含负债）

✓ The accounting treatment

The assets held for sale and the liabilities held for sale must be shown **separately** in **SOFP**. (cannot be offset)
报表上单独区分

➤ Presentation 报表披露

- I. Discontinued operations are required to be **shown separately** in order to help users to predict future performance
- II. An entity must disclose **a single amount** on the face of P/L.
- III. The analysis of this single amount must be presented in the notes.

Statement of profit or loss and other comprehensive Income (extract)

Continuing operations ①	\$	
Revenue	X	
:	:	
Profit before tax	X	
Tax expense 税前利润	(X)	
Profit from continuing operations <small>正常经营活动获得的利润</small>	X	60
Discontinued operation		
Post tax Loss from discontinued operations	(X)	(200)

Total profit for the period	X	140

分来列报是因为：在note中披露（200）怎么来的，重要性水平不够，不需要在财务报表中提及

Atlas – Statement of financial position as at 31 March 2013

Assets

Non-current assets

Property, plant and equipment (44,500 + 52,800 (w (ii)))

Current assets

Inventory (43,700 + 7,000 re in substance loan)

Trade receivables

Plant held for sale (w (ii))

Total assets

Equity and liabilities

Equity (see (ii) above)

Equity shares of 50 cents each

Share premium

Revaluation reserve

Retained earnings

➤ Importance of the separate disclosure

The information about discontinued operation helps financial statement users to predict the likely future performance of an entity.

For example, if a group sold a very profitable subsidiary (or going to sell), it has to identify it as a discontinued operation. This is because the profits from the subsidiary will no longer contribute to future group profit.

Practice

St. Valentine produced cards and sold roses. However, half way through the year ended 31 March 20X6, the rose business was closed and the assets sold off, incurring losses on the disposal of non-current assets of \$76,000 and redundancy costs of \$37,000. The directors reorganized the continuing business at a cost of \$98,000.

	Cards	Roses
	\$000	\$000
Revenue	650	320
Cost of sales	320	150
Distribution	60	90
Administration	120	110

Other trading information (to be allocated to continuing operations) is as follows:

	\$000
Finance costs	17
Tax	31

Draft the P/L statement for the year ended 31 March 20X6.

\$000

Continuing operations:

Revenue	650
Cost of sales	(320)

Gross profit	330
Administration costs	(120)
Distribution costs	(60)

Operating profit	150
Reorganisation costs	(98)

	52
Finance costs	(17)

Profit before tax	35
Income taxes	(31)

Profit for period from continuing operations	4
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Discontinued operations:

Loss for period from discontinued operations	(143)
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Loss for period from total operations	(139)
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In the notes to the accounts disclose analysis of the discontinued operations figure:

	\$000
Revenue	320
Cost of sales	(150)
	—
Gross profit	170
Administration costs	(110)
Distribution costs	(90)
	—
Operating loss	(30)
Loss on disposal	(76)
Redundancy costs	(37)
	—
Overall loss	(143)

Exercise

(1) According to IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations which TWO of the following relate to the criteria for an asset held for sale? BD

A The item ~~must~~ be a major line of operations or geographical area

B The asset must be available for immediate sale

C The sale is expected to be completed within the ~~next three months~~ 12

D A reasonable price has been set

Answer: B&D

(2) According to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations which of the following amounts in respect of a discontinued operation must be shown on the face of the statement of profit or loss?

(i) Revenues

(ii) Gross profit

(iii) Profit after tax

(iv) Operating profit

其余可以在Note披露

A All of the above

B iii only

C iii and iv

D iv only

Answer: B

(3)

	Asset held for sale	Discontinued operation	Neither
A loss-making division, which Madeira have agreed to close next year	没有信息表明sale probable		✓
The factory of Madeira, which is marketed at a reasonable price at year end	没有说是大型独立地理区域 ✓		
Madeira's specialised plant, which will be advertised for sale once it has been dismantled	状态不是立马可供销售		✓

Exercise

Question Bank

P26-32, P181-186

Exam kit

T30-36, T221-T250